

JOHN V. GROMBACH
CONSULTANT
113 WEST 57TH STREET
NEW YORK 19, N. Y.

February 1, 1950

CIRCLE 5-4558
Dr. H. S. Craig
4176

STATINTL
PERSONAL

X-4038
Dr. H. S. Craig
Joint Chiefs of Staff
Department of Defense
2E964 Pentagon Building
Washington, D. C.

Dear Craig:

On Friday, January 27th, the Netherlands Government presented a note to the U.S. Government lodging a strong complaint with respect to U.S. Navy efforts to discourage the use of the Dutch Philips Companies as suppliers to the Western European members of the North Atlantic Pact, and the rumors and reports of alleged insecurity made by the Navy against the Dutch Philips Company not only here but abroad.

The Dutch Government went on to explain that it had made an additional investigation and considered the U.S. Navy's efforts apparently based on unproved and incorrect accusations and insinuations, that the Netherlands Government had thoroughly investigated this matter and had decided to bring it to the attention of the U.S. Government. They further stated, in this connection, that the Dutch Philips Company in their opinion was secure and that Netherland's and Philips' exports, having business everywhere including countries behind the Iron Curtain, were subject to complete and minute controls by the Netherlands Government in close cooperation with the U.S., the E.C.A. mission in The Hague, and the U.S. State Department. They also stated that many self-imposed restrictions were not without harmful effects on Netherlands economy but were gladly accepted by the Netherlands Government. They, however, certainly felt that in return no agency of the U.S. should not foster, much less handicap, sources of revenue related to economic activities within the partner countries.

The Netherlands Government also pointed out that the American Philips Companies were being discriminated against and were declared ineligible for classified contracts for the armed forces because of the Navy's official claim that the American Philips Companies were Dutch owned. Unofficially, the Navy had circulated in Washington a dossier of allegations and accusations proving the Dutch Philips Company disloyal and insecure. That the American Philips Companies were naturally American and were seeking redress through their own Government but that the Netherlands Government hoped that they would receive a fair hearing. However, that the U.S. Navy's stated policy, in writing, was that they did not wish to give out production, research or development contracts with corporations involving foreign affiliations. The Dutch Government pointed out that the only foreign affiliations are that there are Dutch nationals as investors and beneficiaries in the American Philips Companies. That these investors and beneficiaries have no access to management or information and that, therefore, the discrimination violates the basic rights of investors and beneficiaries--one of the freedoms and certainly the spirit of the Western European Pact.

The Netherlands Government further stated that they also desired that the American Philips Companies be given a fair trial or hearing at which time they could prove or disprove the Navy's rumors, reports, and allegations concerning their security and loyalty; for having the American Philips Companies considered insecure and disloyal by the U.S. Navy reflected, of course, greatly on the Dutch Philips Company. It was pointed out that these investors and beneficiaries received profits, if any, through an American Trust and that in addition these Dutch investors and beneficiaries were under Netherlands Government control and that any influence of nationals of the U.S.S.R. or of countries affiliated with the U.S.S.R. or of communist citizens was altogether out of the question.

The Netherlands Government pointed out that such unwarranted infringement as was taking place certainly was inconsistent with the policy of the E.C.A. and the spirit of the Western European Pact and that the whole thing was not without harmful effects on the Netherlands and Netherlands economy, and wound up by stating that Netherlands Government trusted that Philips would soon fully participate in the production of goods and development work essential for defense, both American Philips in the U.S. and the Dutch Philips Company within the Western European group--which they were so eminently qualified to do because of their recognized scientific and technological capabilities and accomplishments over the past fifty years.

Please find attached a few specially selected copies of letters, memos, etc., to further show what is going on here. Confidentially, as I told you, this whole matter is the result of communist propaganda and information fed by communistic or subversive sources aided, exaggerated, or wrongly evaluated by competitors with, perhaps, a little assist by the Navy who, I am told on many fronts, is anxious to lower the production potential of Western Europe for in doing so they will further help the basic premise that the next war will have to be fought basically by the Navy in both the Atlantic and Pacific oceans.

As difficult as it is to believe, (that a thing like this could occur in America), since the latter part of 1947 when the Navy started in on Philips' security, until the latter part of 1948 when the Navy was successful in having the American Philips Companies dropped from the eligible list for classified contracts of the armed forces and the Atomic Commission, up to today, February 1, 1950, they have not had a single hearing, trial, or opportunity to defend themselves or even be presented with any bill of particulars, charge, or accusation.

In addition, we can definitely legally prove, in one case at least, a direct steal and secondary boycott. To be specific, one of the Dutch Philips Companies confidentially divulged to the Navy in Holland, shortly after liberation (1945), a new invention or development of the Philips Laboratories of tremendous use in atomic, radar and television work, and gave them samples. The Navy worked with competitors on this invention, or certainly were working with competitors on this in 1948. In 1948, the American Philips Companies, having the exclusive American rights of this same development and invention, were about to form an independent and new American company to be owned 50 per cent by the American Philips Companies and 50 per cent by another American company and one, incidentally, with not even any foreign investors, and to be managed by the latter company for the commercial manufacture and exploitation of the specific invention at issue which, by the way, is protected by patents.

However, the U.S. Navy stepped in and told the American company that they would black list the new company and black list them if they entered into such a deal, thereby interfering with Philips' exploitation and production of their own invention confidentially given the Navy three years before.

However, the important thing to you is the following: That I have repeatedly tried, both in writing and otherwise, to tell the Navy that Mr. Berle, General Kroner and I, who had no allegiance or connection other than with the Hartford Trust and the American Philips Companies, would be glad to go over any security problems and to make any corrections of any procedure or eliminate any personnel in order to satisfy the security requirements of the Navy. That the American Philips Companies were a means of one-way traffic for scientific information from abroad and that classified contracts, handled by the American Philips Companies, could not possibly leak either outside of the country or to aliens here. However, this never had any result, proving what General Carter Clarke and others have told me a number of times--and that is that there were a number of competitors busy in Washington preventing this situation from being solved.

Now, from a standpoint of the Joint Chiefs of Staff, I would like to project the result of the present policy. Let us assume that the American Philips Companies never get a fair shake and are allowed to be discriminated against. The result will be the contrary of what many patriotic Americans, including myself, have been working on for many years. The American Trust will be broken up and the control of all of the Philips Companies in the Western Hemisphere will pass out of American control. This, in my opinion, would be a calamity to our interests and if we are ever attacked by atomic bombing and our industry disrupted, our Navy, who are behind this, would not be able to put into Buenos Aires, Rio de Janeiro, and other foreign ports in the Western Hemisphere and would not have the finest and best plants in radio communication, electrical and electronic fields service them or supply them under American control. Next, the plants and the very important Philips laboratory in the U.S. in addition to their own capabilities represent a one-way traffic of important scientific information and development from one of the oldest and most efficient laboratories in Europe which has already produced or helped produce many outstanding scientific developments. (See list attached.)

If these plants and particularly this laboratory cannot participate in the classified contracts of the U.S. Government at this time, they will atrophy or certainly finally be chopped off or terminated. However, the Philips Companies will transfer their efforts to some other country or start a laboratory elsewhere. Such a result will, of course, reduce our production and particularly our development potential and will increase it in some other country which may or may not be an active ally. Furthermore, and highly confidentially, I can tell you that I worked out with the Dutch Company, and even if I say so myself, with tremendous argument, an almost instantaneous evacuation plan whereby the greatest scientists and most experienced scientific personnel in their plants in Holland together with all advance key data, scientific information, etc., would come to the U.S. so that in case of war not only would these not fall into the hands of the enemy but would increase the production and scientific potential of the U.S. However, these plans may be changed for if I am unsuccessful in getting the American Philips Companies a fair hearing and of clearing them, which I have no doubt will occur if we get a fair hearing, the American Philips Companies will be disbanded and the instantaneous evacuation plan will call for the movement of the greatest scientists and scientific information and scientific personnel in Europe to other countries which, in case of war, would not be to the best interests of the U.S.

Dr. Craig


In this connection, I would like to note that an evacuation plan enabled the top Philips personnel and their scientists to evacuate and escape from the Germans, and that these set up important plants and did important work in England, Canada, and the U.S., involving, by the way, classified work up to and including Top Secret. I would like to also very confidentially tell you that in my opinion Philips definitely contributed to the development of radar in England and to the development of the atomic bomb in the U.S. The next time I see you, I will tell you the intimate story of how the American Philips Companies, aided in a very small way by my counsel, were responsible for bringing over and keeping one of their employees here who was a major contributor to the development of the atomic bomb and to show you that one of the basic patents was the property of the Philips Company.

So, as I told you when I last saw you, I think that this entire subject is one that should be of great interest to the Joint Chiefs of Staff for it involves relationship with, I would say, the most anti-communist member of the Western European Pact and involves scientific and production potentials and information from many angles. As you can well imagine, but which so far I have not been able to testify to and cannot until I get in some closed hearing, I should have good reason to know all about the loyalty and security of the Philips Companies because of my close association with a certain operation in which they were involved and on which I had constant checks and cross checks for, naturally, in the game involved no one was trusted too much until proven secure after many years.

As I told you, many of my friends in the State Department, in the Navy, and elsewhere, have seen the famous Navy dossier on Philips and I have a tabulation of many of its allegations but I have yet to find one that has any basis either with respect to facts or with respect to conclusions. Many of them, although unknown to the Navy, are the direct result of directives issued from our old outfit and are proof not of insecurity or of disloyalty but on the contrary that of the highest type of patriotism and service. If this entire matter could be straightened out nicely and quickly I am certain I could sell the principals involved to throw no punches or start no litigations, but if the matter continues as it has now for over two years, I am certain that this matter will wind up in Congress and in lawsuits and that these will not help the North Atlantic Pact, the confidence of the country in the armed forces and ~~this~~ administration of scientific and industrial control or coordination, or our fight against Communism.

I hope that this long letter and the attached papers will help you get a picture of this situation and that you can do something about it for our national good.

Cordially,


Joan V. Grombach

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Encls.